



DOUBLE MATERIALITY ASSESSMENT : NAVIGATING KEY CHALLENGES

E*finance Consulting Reply is a consulting firm specialised in the financial sector. The firm has developed extensive expertise in the latest market trends and is able to deliver high-quality results on all projects through its collaboration with other companies within the Reply group.

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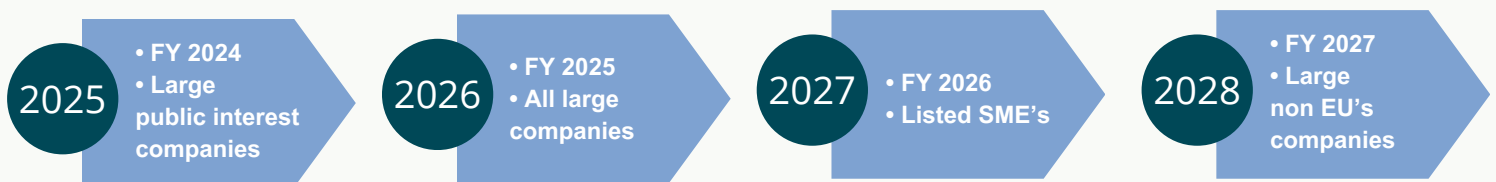
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1. INTRODUCTION

Starting in 2025, the ESG regulatory framework will experience substantial changes with the implementation of the Corporate Sustainability Reporting Directive (CSRD). A wider range of companies will be required to report non-financial information, with the double materiality assessment (addressing both financial and impact materiality) serving as the essential starting point. This article aims to highlight the main challenges and opportunities associated with conducting double materiality assessments

2. CSRD'S APPLICABILITY FOR COMPANIES



3. CHALLENGES

- The biggest challenge in a double materiality assessment is determining where to start, particularly for pioneers without precedents. The initial wave of companies subject to the CSRD will soon publish their double materiality assessments, marking a crucial step in the CSRD journey by highlighting direct challenges and providing lessons learned
- The double materiality assessment follows a principle-based approach with only general guidelines from EFRAG. The CSRD does not specify how to conduct this assessment, requiring companies to tailor their approach to their activities while considering both impact and financial materiality. ESG topics should be integrated into risk assessments, involving key stakeholders across the entire value chain. Additionally, companies must address emerging risks associated with the transition and manage the increasing number of ESG regulations and requirements.
- To meet double materiality requirements, companies must identify their sustainability priorities, which necessitates expertise and stakeholder engagement. The complexity of value chains poses significant challenges, particularly for financial institutions with sensitive client communication. Effective communication channels are essential to avoid burdensome tasks and ensure collaboration. For business groups, determining the consolidation level for disclosure can be complex and risks double booking.
- Determining the materiality of sustainability matters presents challenges. Companies must disclose how thresholds are defined and applied, with EFRAG providing criteria guidelines. It is important to consider short, medium, and long-term thresholds. While financial institutions can easily analyse financial impacts, they must work on impact materiality, where methodologies are less established. Even if a topic is deemed non-material, companies must still provide detailed explanations (e.g., ESRS E1 Climate Change).
- Implementing CSRD is challenging but enhances transparency on ESG topics across industries. The regulation's broad scope and interconnection with other ESG regulations (e.g., appendix B of ESRS 2) increase its relevance. It also aligns with certain standards, further strengthening its application.



4. IMPLEMENTATION TIPS

Start Early : establishing contact with all key stakeholders and gathering the necessary data for the DMA is time-consuming, so initiating the assessment as early as possible is advantageous. Exchanges should be concrete and result-oriented. An overly ambitious and exhaustive strategy may be counterproductive, particularly for smaller institutions. Starting with internal stakeholders from different perspectives before reaching out to an external audience can be an effective initial step

Slice the Elephant : the perspective of materiality assessment as a pre-project involving external stakeholders and a risk approach can be intimidating. It is recommended to break down the assessment into smaller units. This approach allows the project to be tackled in manageable, incremental steps.

Prioritise, Document, and Elaborate : certain steps in the double materiality assessment, such as identifying material issues and key stakeholders, need to be prioritized. Keeping the big picture in mind while defining sequential milestones will support the project's robustness and feasibility. The aim of the regulation, especially for the first years of reporting, is to propose coherent reports rather than ambitious ones. A top-down approach is recommended to maintain this objective throughout the project. The philosophy of the standards is that it is more acceptable for a disclosure not to be made as long as the company provides a rationale for the omission and a time commitment for the publication of the disclosure.

Engage Stakeholders & Raise Awareness : there is no single or preferred methodology for obtaining input from key stakeholders. Entities need to use the most appropriate communication channels from a strategic, commercial, and timely perspective, including interviews, workshops, questionnaires, and surveys.

Use EFRAG's Guidance and Publications : EFRAG provides guidance on double materiality assessment, value chain management, and a list of material issues. These resources should be considered as a list of principles to be regarded rather than practical guidance for a project agenda of the entity's strategy. The list of material issues should be viewed as an illustrative starting point for companies to define their own sustainability issues.

Use Existing Sources : utilise existing frameworks such as GRI Standards, Sustainable Development Goals, GHG Protocol, ISSB Standards, and International Instrument of Due Diligence. The ESRS not only refers to the EFRAG guidance but also to existing international standards that may already be in use internally. Reporting departments responsible for implementing the CSRD should consult the Sustainability Offices for guidance on these frameworks.

5. HOW REPLY CAN HELP ?

At Reply, we have developed a deep understanding of the CSRD and its requirements, enabling us to address the challenges of double materiality assessment. We offer our expertise to assist you in this complex task, considering your specific business needs.

Additionally, at E*Finance Consulting Reply, we have developed a CSRD tool designed to support the monitoring and implementation of the ESRS standards within a company. This tool includes dashboards that facilitate various steps of the CSRD implementation:

- **Intelligible display of data points aligned with ESRS**
- **Template for Gap Analysis purposes**
- **Interfaces showing the level of implementation aligned with stakeholder engagement**

Sources:

- EFRAG - European Financial Reporting Advisory Group - APPENDIX 4.5:STREAM A5 ASSESSMENT REPORT FOCUS ON FINANCIAL INSTITUTIONS; February 2021
- EFRAG - European Financial Reporting Advisory Group - [Draft] EFRAG IG 1: Materiality assessment implementation guidance; December 2023
- ESMA - OPINION OF THE EUROPEAN SECURITIES AND MARKETS AUTHORITY of 26 January 2023 on the technical advice by the European Financial Reporting Advisory Group on European Sustainability Reporting Standards EUROPEAN SECURITIES AND MARKETS AUTHORITY- ; 26 January 2023
- EFRAG - European Financial Reporting Advisory Group - Implementation guidance for the materiality assessment; 17 October 2023
- EUROPEAN COMMISSION - ANNEX to the Commission Delegated Regulation (EU) .../... supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards; 31 July 2023